NEW MEXICO HUMAN SERVICES DEPARTMENT
P.O. Box 2348
Santa Fe, New Mexico 87504-2348
MEDICAL ASSISTANCE DIVISION

September 14, 1998

Nancy-Ann Min DeParle, Administrator
Health Care Financing Administration
7500 Security Blvd.
Baltimore, MD 21244

Dear Ms. DeParle:

Enclosed is New Mexico's 1115 demonstration request to allow extemely modest cost-sharing in our Title XXI State Children's Health Insurance Program (SCHIP), which is a Medicaid expansion covering children from 186-235% of the federal poverty level. We have openly plagiarized Rhode Island's already-approved 1115 waiver, to hasten HCFA approval of this request. This cost-sharing request is the only issue contained in our waiver.

During a conference call on August 3, 1998, members of your staff assured me and members of my staff that this request would be handled quickly. We were assured it would be acted upon in less than the 90 days it took HCFA to approve Missouri's 1115 waiver. We look forward to that level of attention and service.

Please address any questions to Robert Beardsley at (505)827-3156.

Best regards,

for Charles Milligan
Director

Enclosures

cc: Debbie Chang, HCFA Central Office
Rick Fenton, HCFA Central Office
Art Pagan, Dallas Regional Office

I. INTRODUCTION

New Mexico intends to demonstrate that implementation of very modest co-payments for the SCHIP population will not impede access to medical care. The co-payment structure will reinforce appropriate utilization of medical care.

The State of New Mexico will implement a Medicaid program with cost sharing for the State Children's Health Insurance Program (SCHIP) Title XXI population which will approach parity with privately covered families in the same income grouping. Upon enactment of the Balanced Budget Act of 1997 (BBA '97) the State of New Mexico Medicaid program covered children up to 186% FPL. The Title XXI plan submitted proposes to cover children in families with incomes between 186% and 235% FPL. New Mexico ranks 50th among the states in per capita income. The current median income in New Mexico for a family of four is $38,143. The average salary for a state employee is $27,275. For a family of four, 185% FPL is $30,433. 235% FPL for a family of four is $38,658.

Many individuals at these income levels, particularly state employees, have private insurance coverage which requires market-based annual premiums, deductibles and co-payments. **This proposal seeks approval for cost sharing below these commercial benchmarks.** In addition, dental and optical services, covered services under New Mexico's Title XIX program, must be purchased separately if state employees wish coverage. Therefore, a reasonable amount of cost sharing is an appropriate crowd-out strategy (to discourage privately covered individuals from entering a SCHIP plan merely to avoid cost sharing), would approach comparability of private insurance packages, and would be viewed as fair and equitable by New Mexico's citizenry. These co-payments would be applied only to that population between 185% and 235% FPL and would not alter the existing New Mexico Medicaid program.

During the second session of the 43rd Legislature, in 1998, the New Mexico legislature passed the Child Health Act, Senate Bill 132. Prior to its passage, numerous legislative hearings took comments from all sectors of the public. Successful negotiation of the enacted language involved the pivotal issue that there be financial and cost sharing parity between privately insured individuals, state employees, and those receiving publicly funded coverage under SCHIPs. This Act provides for a program oversight committee composed of eight legislators, four from each chamber with representation from both major political parties. This oversight committee has conducted six days of public hearings, since June of this year. The specific cost-sharing proposal contained in this plan was discussed with the legislative Oversight Committee at their meeting on August 13 and 14, 1998. The committee subsequently formally forwarded comments on these provisions which are incorporated in this proposal. The Medicaid Advisory Committee held discussions on this proposal as it was presented to them on August 17, 1998, following formal distribution of an agenda on this item circulated to a broad mailing list. Comments were received from the Committee, the Pediatric Society of New Mexico, and members of the public in attendance. Discussions have also taken place in meetings with Native American representation. On April 17, 1998, over three-hundred

individuals attended a public forum at the Indian Pueblo Cultural Center in Albuquerque to provide input to the Department on SCHIP implementation. The proposal will be published in regulatory format and proceed through the state's formal regulatory implementation process. This provides for a thirty-day comment period and a public hearing.

Specifically, this proposal is requesting waiver of regulations at 42CFR §447.53 (b) (1), (4) & (6). These regulations prohibit implementation of cost sharing for services provided to children.

The same cost sharing provisions will be implemented for fee-for-service as for managed care. Existing federal reporting requirements and processes will not be effected. Utilization patterns will be examined for this population and compared to utilization patterns of existing Medicaid children under 186% FPL who have no co-payment requirements. We plan to obtain baseline data on utilization patterns on children of similar income categories covered by private insurance. We hypothesize that the utilization patterns will be based upon health status and that health status is closely related to economic status. Therefore, the utilization patterns of the SCHIP children may be expected to more closely parallel those of the privately insured children than those of Medicaid children under 186% FPL.

This waiver largely mirrors an 1115 waiver already approved for Rhode Island. The State of New Mexico expects that this proposal will not raise any issues not already addressed by Rhode Island.

II. FORMAT AND CONTENT

A. EXECUTIVE SUMMARY

New Mexico is proposing Title XXI SCHIP implementation as a Medicaid expansion program covering children in families with income between 186% and 235% FPL with co-payment requirements. Co-payments would apply in both fee-for-service and managed care environments. New Mexico's crowd-out strategy will include barring eligibility to those who voluntarily drop private coverage within the preceding twelve months. The benefit package remains as it currently exists in New Mexico's Title XIX plan. The state proposes to demonstrate that access to medical care is not impeded by the imposition of co-payments and the health status of SCHIPS children is not compromised. Furthermore, we hypothesize that more appropriate utilization patterns will result from imposition of the co-payments, ie., greater utilization of preventive care and less inappropriate use of emergency services.

Co-payments will be collected by medical providers. It will be the responsibility of each family to track their co-payment expenditures and notify the state when their annual maximum cost-sharing requirement has been met.

B. PUBLIC NOTICE

The State has presented the idea of co-payments to the legislature's interim Child Health Oversight Committee at a meeting in the southern New Mexico city of Las Cruces and at a meeting in Santa Fe of the Medicaid Advisory Committee and received their input. The proposal will be published in regulatory format and proceed through the state's formal regulatory implementation process. This provides for a thirty-day comment period and a public hearing.

C. THE ENVIRONMENT

The Medicaid system in New Mexico currently operates under a 1915(b) waiver managed care system which has been in place for a little over one year. Individuals must select from among the three managed care organizations that have contracts with the State to provide medical services to the Medicaid population. Medicare recipients are exempt from managed care and Native Americans may opt out of managed care and remain under the fee-for-service system. In addition, Native Americans in either system may utilize Indian Health Service (IHS) facilities at any time. The 1915(b) waiver will continue unchanged and SCHIPS recipients, unless exempt, will be enrolled in New Mexico's managed care system.

Although the State's Medicaid program has no recent experience with cost sharing, both the Executive and Legislative branches agree that cost-sharing is imperative for purposes of parity with the privately insured population as well as for purposes of discouraging crowd out. Since the SCHIPS program is not targeting a low-income group, implementation of reasonable cost sharing requirements should not impede access to care. In fact, some studies demonstrate better compliance with medical treatment plans if the individual has personally invested in the treatment.

State legislative authority exists for implementation of cost-sharing in the SCHIPS program as detailed in the Introduction on page 1. Input has been solicited and received from the legislative oversight committee, the legislative Health and Human Services Committee, the Medicaid Advisory Committee, Pediatric Society of New Mexico, and Native American representatives. There is general agreement on the concept of cost-sharing, however the opinions vary on the specific form, amounts, and procedures.

D. PROGRAM ADMINISTRATION

The cost sharing demonstration is being proposed as an integral part of our SCHIPS program. As such, no separately identifiable administrative capacity is envisioned for implementation of cost sharing. Collection of co-payments will be the responsibility of the provider who will in turn report this information on his reimbursement claim. The MMIS will track collection of co-payments under fee-for-service through a third-party liability (TPL) indicator and manage care organizations will track collections under SALUD!

At the time of initial eligibility determination and redetermination for SCHIPS, the family will be informed in writing of the maximum co-payment amount based upon family income. It will be the responsibility of the family to track its co-payments and notify the Department when they reach the maximum amount as determined at the time of initial eligibility determination or redetermination.

E. ELIGIBILITY

Co-payments will be applicable only to the SCHIPS population (186%-235% FPL). The current Medicaid population (up to 185% FPL) will not be subject to the co-payment requirement. The co-payment requirement will exist for both presumptive eligibility determinations and retroactive eligibility determinations.

F. BENEFITS

The Benefit package for the SCHIPS populations mirrors the package for the general Medicaid population as it represents an expansion of Medicaid eligibility for children in families with income between 186% and 235% FPL.

Co-payments will be applicable to children in all families between 186%-235%FPL. **The co-payments set forth below mirrors those in Rhode Island's approved 1115 Waiver.** The co-payment schedule is as follows:

- $5. per physician visit
- $5. per visit outpatient services (clinic, therapy)
- $15. per urgent care and emergency room visit
- $25. per inpatient hospital admission
- $15. per outpatient hospital services
- $2. per prescription
- $5. for dental visits
- $5. for missed appointments

Prenatal and preventive care will be exempt from the co-payment requirement. In addition, services provided at Indian Health Services facilities, Urban Indian providers, and tribal 638's are also exempt.

Application of the yearly maximum payment of co-payment amounts will not exceed the following standards, based upon FPL income status at the time of initial eligibility determination or redetermination:

- 186%-200% - 3%
- 201%-215% - 4%
- 216%-235% - 5%

The family will be notified at the eligibility determination or redetermination point. Eligibility and co-payment maximum amount, will be calculated for a 12-month period. Eligibility and co-payment amount will not be recalculated for the 12-month period. The co-payment maximum will be applied per calendar year. Families will be responsible to notify the Department when the maximum expenditure has been reached.

G. DELIVERY NETWORK

As this represents an expansion of Medicaid only, the delivery network remains the same.

H. ACCESS

Studies have shown that individuals at 185% FPL and above are able to afford cost sharing without sacrificing basic needs and access to care should not be an issue. If the individual has personally invested in his health care, better compliance with medical treatment plans should result. Sharing

in the cost of health care can lead one to value his or her insurance more. According to *State Health Watch, Vol. 5 No. 1, January 1998,* Florida's Healthy Kids program has found that with cost sharing, utilization of services rose.

Assuring access to medical care is being addressed through various new outreach strategies in New Mexico. Effective with implementation of SCHIPS, presumptive eligibility will be determined by a variety of designated entities, to include IHS facilities, hospitals, physicians, FQHCs, schools, Head Start programs, pediatric practices, state Child Care Bureau staff, and public health clinics. Eligibility for SCHIPS is guaranteed for 12 months regardless of changes in income or family circumstances.

I. QUALITY

In accordance with New Mexico's approved 1915(b) Freedom of Choice Managed Care waiver, required assessment and evaluation tools and processes are in place. These same tools and processes will be utilized for Title XXI. The Medical Assistance Division's External Quality Review Organization contractor for the 1915(b) Waiver, IPRO, will conduct the assessment and evaluation.

J. FINANCE

New Mexico's analysis of co-payment impact on the SCHIP population is based on the utilization patterns of children currently enrolled in Medicaid. Departmental contractors are determining the effects of co-payments on capitation rates. Analysis of proposed co-payments by category of service and utilization suggest that the proposed co-payments may result in an approximate 5% reduction in capitation rates. Enrollment phase-in is patterned on past experience with the implementation of other new categories and services. Spreadsheets project co-pay amounts for each type of service for the target SCHIP population. (See attached).

K. SYSTEMS SUPPORT

The system as currently configured will require no alteration. Co-payments will be collected by medical providers. If collected under SALUD!, the managed care organization must make any necessary changes. Identification under fee-for-service will be accomplished through a new system code.

L. IMPLEMENTATION/TIMEFRAMES

Implementation of cost sharing will coincide with that of the SCHIPS program.

M. EVALUATION/REPORTING

Current contracts with Medicaid managed care organizations require that their network of providers report encounter data on a beneficiary-specific basis to them. In turn, the managed care organizations are required to report this information to the State on an annual basis. All of the reports currently obtained for the general New Mexico Medicaid population will be required under SCHIPS.